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Commercialization and Mission Drift

The Transformation of Microfinance in Latin America

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Comments welcome. Please contact Robert Christen at CGAP.

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I. INTRODUCTION

Nowhere has the commercialization of microfinance proceeded more rapidly than in Latin America. A few years ago, microfinance was the exclusive domain of non-profit organizations and cooperative societies. Today, commercial banks provide 29 percent of the funds that go to microenterprises. Non-governmental organizations (NGOs) that have transformed themselves into licensed financial institutions, together with other specially licensed financial intermediaries, provide another 45 percent. For some, this shift signals the entry of microfinance into its final stage: the provision of financial services to the poor on a massive scale by commercial enterprises.

This paper addresses the impact of commercialization on the strategy and performance of microfinance institutions (MFIs) in Latin America. It explores the key elements of a commercial approach to microfinance and examines the microfinance landscape in Latin America and the different players in the field. It evaluates the profitability of Latin American microfinance and the impact of, as well as the responses to, competition. Finally, an important objective of this paper is to evaluate the major achievements of microfinance in Latin America not only against the initial mission of many microfinance institutions in the region -- to generate employment and develop entrepreneurship -- but also against the mission of providing financial services to a target group composed of the poorest of the working poor. Does the substantially larger average loan balance of *regulated* microfinance institutions represent a natural evolution toward a maturing target group, or does it represent mission drift? Or are today's *unregulated* NGOs aiming at a target group poorer than the

target group of the pioneering institutions that have transformed themselves into regulated entities? This paper will address these and other important issues on the basis of recent information from Latin America, attempting to provide a sense of the state of the industry in the region and the challenges it faces.

Much of the information contained in this paper was gathered from microfinance institutions which participated in the Commercial Bankers Conference in September 1999 in Salvador, Brazil¹; from their reports to the networks to which they belong; and through direct contacts. (See the appendix for a list of the institutions included in the analysis and in the data presented.)

II. KEY ELEMENTS OF A COMMERCIAL APPROACH

Before examining the commercialization of microfinance in Latin America, it is useful to highlight the three key principles of what constitutes a commercial approach to microfinance: profitability, competition, and regulation.

First and foremost, commercialization of microfinance is reflected in strong financial performance. Microfinance institutions in Latin America that have adopted a commercial approach are not only more profitable than their peers in other developing regions, in some instances they are even more profitable than traditional commercial banks in the areas where they operate.

Second, once microfinance institutions are committed to managing business on a commercial basis, *competition* quickly becomes a hallmark of the environment in which they operate. The very profits created by pioneering NGOs generate a demonstration effect, attracting others to follow suit and offer similar services. This, in turn, forces microfinance institutions to begin to make changes in product design, pricing, delivery mechanisms, or other basic features of classic businesses to preserve or increase their market share. In several Latin American countries, microfinance institutions compete fiercely with one another to serve a shared target group. As a result, the market in some countries appears to be reaching a saturation point. In Bolivia, for example, competition has become so fierce that the predatory practices of some microfinance institutions, coupled with the over-indebtedness of clients, have degraded the portfolio performance of all players in the market. This over-indebtedness is in many ways reminiscent of the recent financial crisis in the consumer credit markets of more advanced countries.

Third, in Latin America, reaching sustainability is a precondition for obtaining a license, so it can be assumed that licensed, regulated microfinance institutions have already adopted a commercial approach. Regulated microfinance institutions are far more sustainable than unregulated microfinance institutions, although many of them started out as unregulated or specially licensed organizations clearly rooted in the non-profit sector.

III. COMMERCIALIZATION OF MICROFINANCE IN LATIN AMERICA

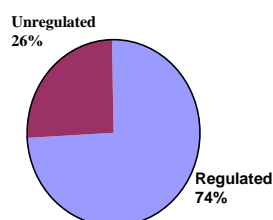
A commercial approach to microfinance appears to dominate in much of Latin America, and a true market for microfinance has developed in many of the countries in the region. This is reflected first and foremost in the proliferation of ever more players in the field. This section highlights key characteristics of the landscape of microfinance in Latin America and explores the different types of institutional structures that are engaged in a commercial approach to microfinance.

A. Main Features of Microfinance in Latin America

Commercialization of microfinance in Latin America is characterized by the increasingly important role of *regulated* versus *non-regulated* microfinance institutions. Regulated financial institutions now channel 74 percent of the funds provided to Latin American microenterprises, reaching 53 percent of the clients being served (Figure 1). This is in sharp contrast to five years ago, when virtually no microfinance clients were reached by regulated entities.

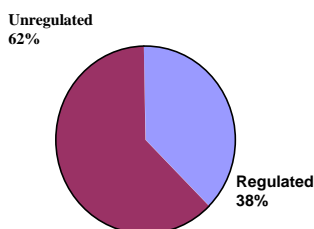
Figure 1: Regulated and Unregulated Industries' Share of Microfinance Market in Latin America, 1999

Active Loan



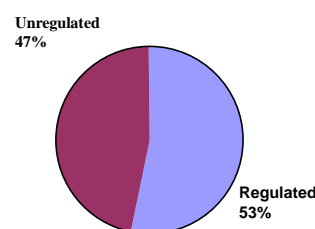
■ Regulated ■ Unregulated

Number of Institutions



■ Regulated ■ Unregulated

Active Clients



■ Regulated ■ Unregulated

Source: CGAP, "Inventory of Microfinance Institutions in Latin America" (Washington, D.C., 1999, Annex 1)

The sector is also characterized by increasing competition and market penetration.

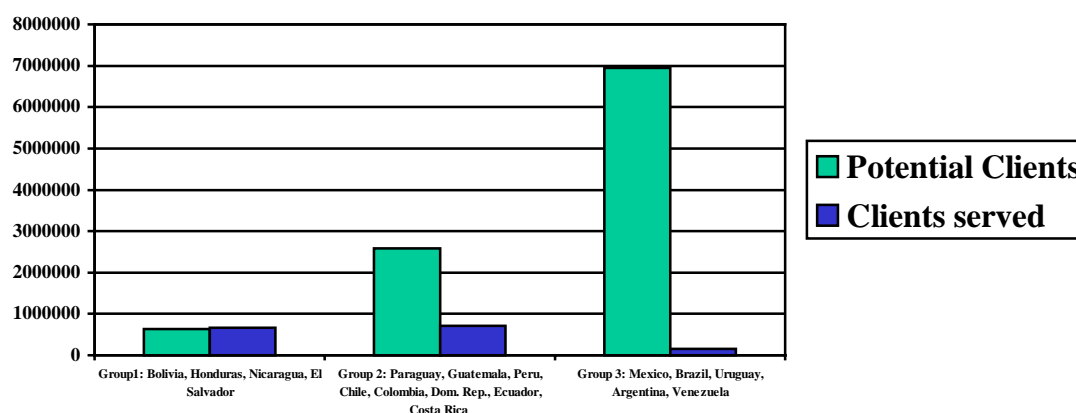
Currently, more than 1.5 million clients hold about \$875 million in outstanding microloans from roughly 200 Latin American microfinance institutions.² In 13 countries in the region, microcredit probably reaches more than 25 percent of the potential market, and in some countries market penetration rates may exceed 50 percent.

In large countries, however, the microfinance sector is virtually undeveloped. While Latin American microfinance institutions have done a very effective job at penetrating the small markets for microenterprise loans, they have utterly failed in the large markets, where most of the region's poor live (Figure 2). Of the more than 10 million potential microcredit clients, almost 7 million live in countries that have virtually no best practice microlending—Argentina, Brazil, Mexico, Uruguay, and Venezuela (fewer than 150,000 clients are served in these five countries). Except for Uruguay, these are large countries. Another 2.5 million live in countries that have begun to develop a significant microfinance industry—Chile,

Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Paraguay, and Peru.

Only 600,000 potential clients live in areas in which the microcredit industry reaches at least half its market. Put another way, 90 percent of current microcredit clients in Latin America live in countries representing only 31 percent of potential demand.

Figure 2: Distribution of Supply and Demand for Microenterprise Credit in Latin America, Third Quarter, 1999



Source: CGAP, "Inventory of Microfinance Institutions in Latin America" (Washington, D.C., 1999; annex 1).

What accounts for this lopsided distribution of microfinance in Latin America? One reason is the lack of credible NGOs in those large markets. While there are a very few notable microcredit NGOs in Brazil and Mexico, they have not had the demonstration effect that leading NGOs have had in most other countries of the region. For various reasons, microcredit NGOs have neither proliferated nor caught the imagination of bankers in the region's largest markets -- except, very recently, for Banco do Nordeste in Brazil.

It may also be that barriers to entry for a dedicated microfinance banking institution are so high in these large markets that such institutions prove impractical. As the banking systems in these countries grow, particularly in terms of consumer credit, the rationale for developing specialized microfinance institutions tends to disappear. The lesson of the Chilean model may well be that microcredit will simply be absorbed by retail banking institutions as one more product of a commercial platform designed to reach a broad base of lower-income and lower-middle-income clients.

B. Typology of Commercial Microfinance in Latin America

The commercialization of microfinance in Latin America has taken many distinct paths. This section provides a typology of the different institutional structures that are conducting microfinance on a commercial basis and therefore competing with each other. As shown below in Table 1, these institutions can be classified in two broad categories: regulated and non-regulated microfinance institutions.

Table 1: Institutions Engaged in Microfinance in Latin America

Latin America	Number of Institutions	Number of Clients	Portfolio Outstanding	Average Loan Balance	Percentage of per capita GDP
Regulated	77	807,783	648,564,701	803	49.0
Specially licensed	21	284,218	225,771,171	794	49.0
Transformed	31	186,331	170,201,772	913	71.0
Commercial	25	337,234	252,591,758	749	49.0
Unregulated	128	711,955	228,962,203	322	24.0
Total	205	1,519,738	877,526,904	577	34.0

1. Regulated Microfinance Institutions

For the purposes of this paper, regulated microfinance institutions have been classified into three groups: transformed microcredit NGOs, specially licensed microfinance institutions, and traditional commercial banks.

(i) Transformed microcredit NGOs

The first group consists of financial NGOs that have transformed themselves into licensed microfinance institutions under the same legal structure as that of traditional banks or finance companies. Transformed microcredit NGOs serve 186,331 clients. This model was followed in Bolivia, where microcredit originated in the NGO community. As financial NGOs gradually grew, they saw a future in becoming part of the formal financial sector. The first to follow this route was Prodem, which sought and was granted a full banking license (Bancosol) in 1993. Subsequently, in Colombia Finansol was formed by Corporsol, and Financiera Calpia was formed by AMPES in El Salvador. In Peru, MiBanco was

recently formed by Acción Comunitario del Perú. All of these institutions availed themselves of pre-existing bank or finance company licensing arrangements.

(ii) Specially licensed microfinance institutions

The second group of regulated institutions consists of NGOs that have transformed themselves into specially licensed microfinance institutions, credit unions, and municipally owned local non-bank intermediaries called “cajas”. What distinguishes them from the first group is that they became licensed microfinance institutions under a special law for microfinance (credit unions or *cajas*), rather than under the general banking law. This group serves 284,218 clients.

In Bolivia, after Prodem was granted a full banking license, other microcredit NGOs successfully lobbied for a special license that would allow them to operate and obtain access to central bank funds. In Peru, the most important microfinance institutions are the *cajas municipales*, local financial intermediaries that were especially set up to capture deposits. They were brought into the non-bank financial sector from the start and were subjected to regulation and supervision. The government has since established yet another non-bank licensing franchise to force financial NGOs into a regulatory regime. In Peru, therefore, commercialization has had a more coercive element than in other countries of the region.

Credit unions. This paper excludes credit union members from the totals of clients served and amounts lent in microfinance. However, differences between credit unions and

microfinance institutions are quickly breaking down. Some credit unions have taken up the lending methodologies espoused by the microfinance community. More important, most credit unions have a significant number of members who could be classified as microenterprise clients or as members of the same low-income communities that microcredit programs seek to reach. Exactly how much overlap there is between microfinance institutions and credit unions remains unclear and should be explored further. Credit unions tend to be strong in rural areas, microfinance institutions in cities. Surveys by the World Council of Credit Unions (WOCCU) in Ecuador, El Salvador, and Nicaragua reveal that 25 to 60 percent of credit union members can be classified as poor. WOCCU is deepening this research as part of its effort to assist credit unions in their marketing strategies. Drawing on survey data from 58 credit unions in Bolivia, Guatemala, and Honduras, researchers found that 15 percent of these institutions' loans went to agricultural enterprises and 25 percent to nonagricultural enterprises.³ And surveys in Ecuador, El Salvador, and Nicaragua showed that virtually all enterprises receiving credit union loans could be classified as microenterprises on the basis of their having fewer than five employees.

(iii) Traditional banks and finance companies

The third and largest group of regulated institutions consists of traditional banks and finance companies, which together serve 337,234 clients. This category is dominated by banks that expect microcredit to contribute to their bottom line, although it includes many institutions traditionally seen as having a developmental orientation, such as Banco del Estado in Chile, Banco do Nordeste in Brazil, and Banco del Pacífico in Ecuador.

The entry of commercial banks into the microfinance market is a key distinguishing feature of competition in Latin America. Not only are microfinance NGOs experiencing competition from within their own ranks, they are also facing competition from the formal banking sector, traditionally considered a separate sector and therefore not a threat to microcredit NGOs. Lured by the promise of a vast market and by the high returns demonstrated by pioneering microfinance NGOs, more and more traditional banks and non-bank institutions are targeting the same clientele as microfinance institutions. Microlending techniques seem to be picked up by banking institutions with a core business strategy that is closely related, such as passbook savings deposits. In Chile, Banco del Estado is the country's savings bank. Banco Santander in Chile and finance companies in Bolivia all serve the lower-middle and middle salaried classes with consumer credit. Banco de Desarrollo in Chile, Banco de Nordeste in Brazil, Banco Económico in Bolivia, and Banco Solidario in Ecuador all make serving the small business and microenterprise community a core business strategy.

Within this third broad category, it is possible to distinguish two different sub-groups:

(a) Commercial banks that have entered the microfinance sector as a new niche market and as part of their overall operations. In Chile, where this approach is most widespread, microcredit was first established by small NGOs. But none grew to the scale and importance of most of their Bolivian counterparts. Instead, the Chilean government directly subsidized the entry of commercial banks into the microcredit market. The government auctioned off a relatively small lump-sum subsidy for each loan a bank made, with the bank

assuming all credit funding and risk. This program was quite successful. Today, three large banks offer microcredit to about 70,000 microentrepreneurs. The NGOs essentially abandoned the credit market, though many of their former employees now staff the commercial banks' microlending operations. However, in no case do these operations account for a substantial share of a bank's net profits. The market is simply too small, and the banks too large.

(b) *Consumer finance companies.* In some countries of the region, consumer lending is starting to cross over to the microfinance sector and threaten the competitive position of microfinance institutions. Consumer lending is showing more dynamic growth potential than microenterprise credit, a fact that microfinance institutions would be wise to take into account, if they have not already. Consumer finance companies offer products that are much more versatile than those offered by traditional MFIs. In Chile, during the 10 years it took microfinance institutions to build a portfolio of 83,000 clients, seven consumer finance companies generated a combined portfolio of almost \$1 billion to 2.8 million consumer loan clients (representing roughly half the workforce).⁴ In several other Latin American countries, including Argentina, Brazil, Colombia, and Mexico, consumer finance to salaried employees is one of the fastest growing parts of the financial sector. In Chile, one major bank manages its microenterprise lending operations through its consumer finance division. In Paraguay, small finance companies have dominated the commercialization of microcredit. While microcredit began in Paraguay through a non-profit organization (Fupacodes), it has grown almost exclusively through the global loan program supported by the Inter-American Development Bank (IDB), which channels funds through the central bank for on-lending.

The IADB project also provides technical assistance and some direct support for setup costs. Microcredit is compatible with the Paraguayan finance companies' other main line of business and accounts for a substantial portion of their net income. In Paraguay, several finance companies whose main line of business is consumer credit also offer microenterprise credit. In many countries, the division between microenterprise loans and consumer finance is blurring as the products are offered by the same staff through the same infrastructure.

Anecdotal evidence suggests that there is considerable crossover from consumer finance into microcredit. An NGO trying to work in poor neighborhoods in Rio de Janeiro found that microenterprise families were already indebted to consumer finance companies, even though the latter had never developed an explicit microenterprise loan product. In Chile, where consumer credit reporting systems are most advanced, Banco del Estado staff report that 30 percent of applicants have already received personal credit from banks and finance companies. If 30 percent of the estimated 300,000 credit-worthy microentrepreneurs in Chile have access to consumer credit, then 100,000 microenterprises probably receive consumer loans -- compared with the 83,000 that have received loans from microfinance institutions. While most countries in Latin America have not yet reached this point, the level of crossover is sufficiently significant that microfinance institutions should seriously take this dimension of competition into account.

2. Non-Regulated Microfinance Institutions

While the commercialization of microfinance in Latin America has been mostly driven by *regulated* institutions, this is not uniformly the case. Non-regulated microfinance institutions or NGOs still account for about a quarter of all funds to microenterprises in the region. In Nicaragua, commercialization has not entailed the transformation of financial NGOs into licensed banking intermediaries. Instead, it has been driven by the plethora of microcredit NGOs operating in a relatively small market. Spurred by direct competition, commercialization is beginning even though traditional profit-seeking entrepreneurs, such as commercial banks, have not yet entered the market.

IV. COMMERCIALIZATION AND PROFITABILITY

The evolution of microfinance towards a commercial approach depends first and foremost on adequate financial returns. Not content with mere sustainability, Latin American microfinance institutions have long sought financial returns that can strengthen their equity base. Re-investing substantial profits into their equity base has permitted many microfinance institutions to expand operations without continual, substantial direct donor contributions. This section will examine how microfinance institutions in Latin America are not only more profitable than their peers in other developing regions, in some instances their returns are even higher than those of commercial banks in areas where they operate. Even low-end microfinance institutions, which have generally performed less well than their peers serving a broader range of clients, are quickly on their way to reaching operational self-sustainability.

Microfinance institutions in Latin America are among the most profitable in the world. Their adjusted returns on assets in the late 1990s averaged 1.4 percent, while average returns for all other developing regions were negative (see Table 2). Of the 51 Latin American programs reporting data to the *MicroBanking Bulletin*, 41 cover all operational expenses and maintain the value of their equity in the face of inflation (it is important to note that these are also the leading institutions in the region). Stated differently, four of five Latin American peer groups⁶ show positive average inflation-adjusted returns, and even the least profitable group covers all direct operating costs (Table 2, last row).

Table 2: Returns to microfinance in Latin America, 1996–99 (percent)

Peer group	Adjusted returns on assets	Operational self-sustainability ^a
All microfinance institutions	–4.5	109
All Latin American microfinance institutions	1.4	125
Large, broad based	3.1	123
Savings based	4.2	124
Medium-size, broad based	1.3	126
Medium-size, low end	2.3	128
Small, low end	–9.4	110

Note: The underlying data for microfinance institutions refer to various years in the period 1996–99.

a. Income from credit operations divided by expenses related to credit operations. Does not include adjustments for inflation or corrections for subsidies received.

Source: *MicroBanking Bulletin*, no. 4 (February 2000) [www.calmeadow.com].

In addition to being more profitable than microfinance institutions worldwide, financially sustainable microfinance institutions in Latin America show returns that exceed those found in the traditional commercial banking in the region (Table 3).

**Table 3: Returns to microfinance and traditional banking
in Latin America, June 1999 (percent)**

Type of institution and country	Unadjusted returns on assets	Adjusted returns on assets
Financially sustainable MFIs in Latin America	8.90	3.93
Commercial banks		
Bolivia	n.a	0.82
Chile	n.a.	0.59
Dominican Republic	1.87	n.a.
El Salvador	0.19	n.a.
Paraguay	3.04	n.a.
Peru	n.a.	0.71

n.a: Not applicable.

Note: If commercial banks in the country use inflation-based accounting, their results are shown under adjusted returns on assets. If not, their returns are shown as unadjusted.

Source: *MicroBanking Bulletin*, special analysis; Latin American Bankers Association, December 1999 [www.latinbanking.com].

A third phenomenon demonstrating the trend towards profitability is that even microfinance institutions that cater to poorer clients are generally improving their financial performance more rapidly than those that serve a broader client base⁶ (Table 4). In the last period shown in Table 4, medium-size, low-end institutions actually outperformed the medium-size, broad-based peer group.

**Table 4: Adjusted returns on Assets for Microfinance Institutions by type,
in Latin America, 1997–2000 (percent)**

Year data reported	Large, broad based	Medium-size, broad based	Medium- size, low end	Small, low end
1997	2.5	7.6	—	—
1998	4.2	6.3	–8.3	–16.7
1999	4.2	4.4	–4.4	–11.8

2000	3.1	1.3	2.3	-9.4
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— Not available.

Source: *MicroBanking Bulletin*, no. 1–4 (November 1997, July 1998, July 1999, February 2000) [www.calmeadow.com].

This trend toward increased profitability represents an important shift for NGOs that entered microfinance with the aim of alleviating poverty. This trend presents an interesting counterpoint to those older, broad-based microfinance institutions that claim that competition is driving them up-market. Perhaps we will soon see a host of commercially oriented, credit-driven microfinance institutions catering to a substantially poorer group of families than the pioneering microfinance institutions ever imagined.

V. COMMERCIALIZATION AND COMPETITION

The key feature of the commercialization of microfinance in Latin America is competition. As a matter of fact, commercialization and competition go hand in hand, one spurring the other. As pioneering NGOs demonstrated that microcredit could be a lucrative business, more and more players have entered the market. At the same time, microfinance gained increasing attention as a poverty alleviation tool, spurring governments to develop microfinance programs and pressure banking institutions to engage in this activity. Competition has led to increasing market penetration, and, in some countries, to market saturation and deterioration of portfolio quality. This section examines these different aspects of the impact of competition on microfinance institutions.

A. Market Penetration and Saturation

As microfinance institutions have proliferated, it appears that the supply of microloans to microenterprises in the major urban areas of some countries may have reached market saturation, at least for the loan products now offered. This conclusion about increasing market saturation is based on anecdotal evidence from microfinance programs themselves. In several countries, programs report that they are competing for clients, many of whom have loans from more than one microfinance institution.

Bolivia presents an extreme case of market saturation as a result of increased competition (Table 5). The estimated market penetration rates for Bolivia suggest that many microcredit clients must be simultaneously borrowing from more than one microfinance institution. Indeed, field staff report that many microcredit clients have become over-indebted and are financing the repayments of one loan with another. This, coupled with a general economic recession, has gradually degraded loan portfolio quality across the entire industry. Considering that Bolivia had maintained remarkably low levels of loan delinquency in the initial phase of the development of microfinance, this development represents a severe downturn for the microfinance industry.

**Table 5: Portfolio Risk Rates for Licensed Microfinance Institutions
in Bolivia, 1996–99 (percent)**

Institution	1996	1997	June 1998	December 1998	April 1999
Los Andes	1.1	3.4	5.8	5.8	10.0
FIE	0	0	0.3	1.5	4.5

Acceso ^a	7.0	20.0	26.7	19.1	26.1
Fassil ^a	1.0	8.0	14.2	12.4	18.2
Comunidad	0	1.4	2.6	5.5	11.4
Bancosol	0	2.1	5.8	4.5	9.3
Prodem	3.0	—	—	2.7	—

— : Not available.

a. Acceso and Fassil are consumer credit finance companies and do not use traditional microenterprise lending techniques.

Source: Statistics of the Bolivian Banking Superintendent's Office, as reported in Arelis Gomez, German Tabares, and Robert Vogel, "Microfinance, Bank Regulation and Supervision: The Bolivian Case Study" (Development Alternatives, Microenterprise Best Practices Project, Bethesda, Md., draft, October 1999).

B. Estimating Market Penetration

Increasing competition and possible market saturation raise important questions about the nature of demand and the potential for outreach in a competitive environment. At best, estimating market demand for microloans has been a crude art. Two important obstacles hinder the estimation of demand: the lack of business census information identifying microenterprises, and the current product offering, which limits the number of qualifying individuals who want what is offered.

Analysts have typically inferred the potential market demand for microenterprise loans from the results of household surveys, using a process similar to the following:

- Taking the size of the economically active population from census data.
- Determining the percentage of the population that is self-employed or working in enterprises with fewer than five employees and applying it to the economically active population to derive the number of people working in microenterprises.

- Making an assumption about the average number of employees per enterprise (normally between 2.5 and 3.5 in Latin America), to derive the number of potential microenterprises.
- Using a discount factor (often 50 percent) to take into account that not all microenterprises qualify for or wish to have a loan.

Table 6 uses this approach to estimate the potential market and penetration rate.

**Table 6: Market penetration rate for microfinance
in six Latin American countries, Third Quarter, 1999**

Country	Estimated size of market ^a	Number of loans outstanding	Market penetration rate (percent)
Bolivia	232,353	379,117	163
Chile	307,832	82,825	27
El Salvador	136,311	93,808	69
Nicaragua	116,375	84,285	72
Paraguay	82,984	30,203	36
Peru	618,288	185,431	30

a. Calculated as 50 percent of all microenterprises.

Source: CGAP, "Inventory of Microfinance Institutions in Latin America" (Washington, D.C., 1999; annex 1).

But long-term market penetration rates may be far higher than the data in Table 6 suggest.

Programs usually do not track the number of individuals who have received loans over time.

Instead, they track the number of current and accumulated loans. This is not at all the same thing, a fact that could significantly alter the understanding of potential demand. For example, a program in Chile that tracks individual clients through a national identification number found that while it has only 4,000 current clients, it has lent to 20,000 different individuals over the past 10 years.

Consider an analysis of long-term demand for microfinance in these six countries that models annual loan portfolio growth at 200 percent for the first three years, then gradually taper off to 25 percent, and average annual desertion rates of 20 percent for the overall microloan portfolio. The results suggest that a far larger number of clients may have been served over the past 10 years (Table 7). While the quantitative aspects of this analysis should not be pushed too far, the principle behind it is quite important for discussions about the potential *demand* for microloan products. Many more clients have probably been attended to than is thought, and many individuals who left microfinance programs may have lost interest in the products offered.

Table 7: Estimated long-term market penetration rate for microfinance in six Latin American countries, 1990s

Country	Estimated size of market ^a	Number of individuals served over the decade ^b	Share of potential market served over the decade (percent)
Bolivia	232,353	562,320	242
Chile	307,832	149,400	49
El Salvador	136,311	105,300	77
Nicaragua	116,375	58,680	50
Paraguay	82,984	54,365	66
Peru	618,288	350,888	57

a. Calculated as 50 percent of all microenterprises.

b. Based on crude estimates.

Source: Model built on data from CGAP, "Inventory of Microfinance Institutions in Latin America" (Washington, D.C., 1999; annex 1).

VI. A COMMERCIAL RESPONSE TO COMPETITION

In regular markets, classic enterprises usually respond to competitive pressures by offering new and better products at more competitive prices and by improving productivity. As

microfinance institutions increasingly find themselves operating in markets where competition abounds, their behavior more and more resembles that of classic enterprises. This section explores microfinance institutions' responses to competition and identifies some areas in which this response has been less than satisfactory.

In the early years of microfinance, whenever microfinance institutions overlapped in a market, their managers would meet to define a response. This response generally included focusing efforts in a way that would reduce competitive pressure on each institution -- by dividing up neighborhoods, separating target markets, or entering into "non-compete" agreements that assigned a client to the first microfinance institution that arrived.

In Latin America, this cartel-like behavior has inevitably broken down, giving way to direct, unbridled competition. Today, as in any other line of business, competition means that microfinance institutions have to strive to attract or retain more clients by becoming more responsive to their needs. This competitive behavior is consistent with what would be expected from any commercial firm operating in a competitive environment.

In general, commercial microfinance institutions have responded competitively to their changing environment, by adopting a strategy based on increased client responsiveness and efficiency. This is reflected in terms of a clear trend towards individual lending, as well as in improved delivery mechanisms. However, in other important areas such as the development of savings products, the responses of Latin American microfinance institutions have been surprisingly weak.

A. Towards individual loans

The effects of competition show up first in the design of loan products, where there is an increasing trend towards greater client responsiveness. In three of the most competitive microfinance markets in Latin America, there has been a marked shift over the past decade from group to individual lending, an approach that reflects client preference for individual loan products over group lending. Major commercial providers entering the market consistently choose individual lending technologies over group methodologies.

In 1990, Banco de Desarrollo in Chile had a portfolio that was evenly split between group and individual loans, and NGOs had 80 percent of their portfolios in group loans. By the end of 1999 Banco de Desarrollo had gotten out of group lending altogether, the NGOs had reduced their portfolios in absolute terms, and new bank entrants all used individual lending techniques. Individual lending now accounts for more than 90 percent of the market.

In Paraguay, in 1990 Fundación Paraguaya operated a group program. By 1999, all lending through both the finance companies and Fundación Paraguaya was individual. As in other countries, this shift is mostly seen in the fact that all later entrants offered only individual loans.

In Bolivia in 1990, Procredito/Caja Los Andes, FIE, and the NGOs that made up Ecofuturo FFP all granted individual loans, while Prodem/Bancosol structured loans around groups.

Each methodology accounted for about half the market. By 1999, the most dynamic new entrants—Fassil, Banco Económico, Acceso—had all come into the market offering individual loans, although these later entrants have faced important portfolio quality problems and have failed to dominate the market as in Paraguay and Chile.

B. Improved service delivery

Along with steadily moving towards individual loan products, microfinance institutions in Latin America have developed innovative techniques for making these loans and other products available. Many of these innovations represent attempts by microfinance institutions to position themselves favorably in a competitive market:

- BancoAdemi in the Dominican Republic and Banco Santander in Chile have developed credit card services for their established clients.
- MiBanco in Peru and Banco del Estado in Chile are developing computer-based credit scoring models to simplify and standardize lending decisions in highly decentralized operations.
- The *cajas municipales* in Peru and Banco Solidario in Ecuador provide immediate loans to individuals who pawn gold jewelry as collateral.
- Financiera Calpía in El Salvador, FFP Los Andes in Bolivia, and Caja Municipal Arequipa in Peru have developed production credit for agricultural activities.

C. Product Diversification

Surprisingly, competition has not spawned much product diversification in Latin American microfinance. Microfinance in the region continues to be deeply rooted in its initial approach -- targeting credit to microenterprises.⁸ Microcredit NGOs have not been transformed into true “people’s banks” offering a full range of financial services to poorer families. In this sense, microfinance hasn’t evolved much in terms of product diversification – it has just grown bigger.

Much of the recent work on the effect of credit on poor households has concluded that credit is only one of the financial tools they use to cushion the impact of life’s shocks (sudden illness, loss of wage earner, natural disaster), to accumulate capital assets, and to manage daily cash needs.⁹ Many other financial services can also meet these needs: checking accounts, time deposits, passbook savings, insurance, and pension plans could all play a role in improving the quality of life for the poor. There is no intrinsic reason that poor families would desire less access to these services than would wealthier families -- except that appropriate products have not yet been designed for the market that the poor represent. This forces them to provide for these needs through non-financial mechanisms, many of which carry a very high cost.

Mobilizing savings from low-income clients seems to represent the lost opportunity of microfinance in Latin America. At the same time, retail banks in the last two to three years have opened millions of small deposit accounts in the same countries where microfinance institutions have added fewer than 200,000 new clients. Consumer finance divisions of retail banks in Argentina, Colombia, Mexico, Peru, and Venezuela have opened hundreds of

thousands of passbook savings accounts in the first 6 to 18 months of business. In Mexico, one bank opened nearly 500,000 accounts in 18 months, and another opened 300,000 accounts in six months. In Colombia, two banks opened 800,000 accounts in just six months. In Venezuela, a bank opened 700,000 accounts in 18 months. Balances for most of the passbook savings accounts opened by retail banks in these five countries fall well below \$500.¹⁰

The bias toward credit runs deep in the microfinance community. Even as financial NGOs become licensed intermediaries, most do not aggressively pursue a strategy to shift their funding source to deposits from the poor communities where they provide loans. Of the specially licensed microfinance institutions in the survey, only the *cajas municipales* fund themselves largely on the basis of passbook savings.

This credit bias also prevails among traditional retail banking institutions that have recently entered microfinance. Of those in the survey, only Banco del Estado in Chile funds itself on the basis of passbook savings, but it was doing this long before it heard of microenterprise finance.

While the microfinance community in Latin America has been aware of the potential of savings for at least 10 years,¹¹ its NGO base has not proven conducive to experimenting. Appropriately, only regulated financial entities can capture deposits from the general public. But merely becoming regulated does not qualify an institution to capture savings. Such is the position of the Bolivian banking authorities, who will not permit newly formed private

financial funds to mobilize small deposits until they have established the ability to do so safely and professionally. The traditional retail banks and finance companies new to the microcredit market have not picked up new technology (or motivation) to serve the poor with deposit services, so they too have failed to broaden microfinance beyond credit.

VII. DOES COMMERCIALIZATION LEAD TO MISSION DRIFT?

A frequent debate in microfinance forums is whether the push towards sustainability – and, ultimately, the commercialization of microfinance – is driving institutions up-market from where they would naturally situate themselves. It is not possible to settle this debate for Latin America in this section. But some interesting information that emerged from this inventory of Latin American experience might shed some light on whether commercialization has left poorer clients behind.

A. Commercialization Means Larger Loans

Evidence shows that regulated microfinance institutions in Latin America provide larger loans to their clients than do unregulated NGOs (Table 8). Indeed, the average for unregulated NGOs (\$322) is roughly a third that for regulated microfinance institutions (\$803). This relationship also holds, though to a lesser extent, for a more appropriate comparative measure, average outstanding loan balance as a percentage of GNP per capita, with unregulated NGOs having half that of regulated microfinance institutions.¹² This initial evidence seems to indicate that the more commercial approach to microfinance in Latin

America seems to have left poorer clients behind, which could support the argument that mission drift is an inevitable consequence of the push for commercial viability.

Table 8: Average outstanding loan balances for regulated and unregulated microfinance institutions in Latin America, Third Quarter, 1999

Type of institution	Number of institutions	Average outstanding loan balance (U.S. dollars)	Average outstanding loan balance as a percentage of GNP per capita
Regulated financial institutions	78	817	47.2
Unregulated financial NGOs	128	322	23.6

Source: CGAP, “Inventory of Microfinance Institutions in Latin America” (Washington, D.C., 1999; annex 1).

B. Larger Loans Do Not Necessarily Indicate Mission Drift

But larger loan sizes are not necessarily an indication of mission drift and could be a function of different factors, including the “generational factor”. The extent to which a microfinance institution was initially part of the pioneering group or first generation of microcredit NGOs, or whether it is part of new entrants into the sector, seems to influence the market segment currently served. The section below explores some of these different factors.

Choice. Larger loan sizes could simply be the result of a deliberate strategy or choice on the part of microfinance institutions. Virtually all the older, more established microfinance institutions (including in their previous incarnations as NGOs) in Latin America started with an explicit objective to generate employment in the urban microenterprise sector, so that their initial mission was not reaching the poorest of the poor but promoting small enterprise development. Initially, they focused their efforts on established microenterprises most likely to generate new jobs, usually in the manufacturing sector. Over time, they moved steadily into petty trade, still emphasizing established enterprises, however small they might be. In the case of these first-generation, transformed NGOs, there was no mission drift since their initial target was not the poorest of the poor, but small enterprise development.

In strong contrast is the approach taken by many of the newer entrants to microfinance. These can be divided into two subgroups: (i) poverty-oriented NGOs inspired by village-level programs in Asia, and (ii) commercial banks seeking to achieve high returns at the low-end of the microfinance market.

Unlike the first generation of microcredit NGOs, these new NGOs seek from the outset to bring extremely poor women into productive economic activity, many for the first time. They reach out to a generally poorer clientele than that of the first-generation microcredit institutions. Virtually all of them are unregulated NGOs.

So, the large differences between the average loan balances of commercial and unregulated microfinance institutions may simply reflect the fact that the two groups started out to serve

quite different populations and decided on different strategic paths for obtaining funding from the outset. Unregulated NGOs simply may have not chosen (or not yet chosen, whichever is the case) to pursue transformation and links with the financial sector as aggressively as regulated institutions have. In this instance, mission drift may not have occurred at all.

The interesting phenomenon about commercial banks is that they are entering the microfinance market at or near the same level of the pioneering NGOs that preceded them. Table 9 compares average loan balances of microfinance institutions in several countries where traditional NGOs coexist with these recent entrants—traditional retail banks and finance companies.

Table 9: Average outstanding loan balance of NGOs and traditional retail banking institutions that have introduced microloans in Latin America, Third Quarter, 1999 (percentage of GNP per capita)

Country	Original NGO microfinance institutions		Strictly commercial microfinance institutions
	Unregulated	Transformed and Regulated	
Ecuador	16	n.a.	17
Brazil	9	n.a.	7
Honduras	46	n.a.	58
Paraguay	27	n.a.	43
Bolivia	28	89	94
Chile	13	n.a.	20
Guatemala	35	n.a.	94
El Salvador	11	45	151

n.a. Not applicable.

Source: CGAP, “Inventory of Microfinance Institutions in Latin America” (Washington, D.C., 1999; annex 1).

The comparison reveals an interesting phenomenon. Traditional banks in El Salvador and Guatemala have average loan balances at or above GNP per capita, placing them in the upper echelon of the microfinance industry. In the other countries, traditional banks have entered the industry near the same level as the NGOs (unregulated, transformed, and regulated) that preceded them. This finding suggests that the demonstration effect sought by so many practitioners when they established microfinance institutions 10–15 years ago may actually have worked. Banks tend to copy closely the techniques that have been proven in their immediate environment. A traditional bank can reach quite far down the socioeconomic ladder and still be very successful—as Banco do Nordeste in Brazil has been, maintaining an average outstanding balance of \$253 (6 percent of local GNP per capita).

This is not to say that traditional retail banks care about the poor in the same way that some NGOs do. Most banks do not have a mission statement that will push them to reach ever downward along the socioeconomic ladder. But the admittedly crude evidence mustered here suggests that when shown a good business opportunity, banks take it -- regardless of the client group -- as long as it fits with their other core activities.

Maturity of portfolio and client group. What appears to be mission drift may also be nothing more than the natural evolution of the average loan balances of NGOs that transformed themselves into regulated financial institutions. Did their loan balances increase in a way that suggests that the need for profitability drove the terms and conditions of loans and thus the selection of their target market?

Data for 1990–99 from programs supported by Acción International and Internationale Projekt Consult (IPC), two of the most prominent microfinance promoters in Latin America, help answer this question. The average loan balances of these programs could be expected to have increased substantially over the past 10 years. Most of their programs were quite young in 1990, and their portfolios were clearly dominated by new borrowers. They all engage in incremental lending, in which loan balances start well below the client's ability to pay the installments and are subsequently increased through many short-term loans. Today all these programs have far more mature portfolios.

The microenterprises financed by these loans could also be expected to have grown, as would their demand for credit. In addition, the average loan sizes of microfinance institutions must be viewed in the context of the broader economy in which they operate: a dynamic economy may benefit microenterprises, which, in turn, may require larger loans.

All these factors would put upward pressure on the average loan size without meaning that the microfinance institution has left its initial target group behind. The average loan balance of a typical microfinance institution could easily double or triple as both the program and its target group mature.

The data show that most of the microfinance institutions did not increase their loan sizes beyond levels compatible with a natural evolution of their loan product and target group (Table 10). This seems especially true for Prodem/FFP Prodem, FIE/FFP FIE, AMPES/Financiera Calpía, ACP/MiBanco, and Propesa/Banco del Estado.

Table 10: Evolution of average real outstanding loan balances for leading microfinance institutions in Latin America between 1990 and 1999

Institution	Average outstanding loan balance as a percentage of GNP per capita		Average 1999 balance as a multiple of average 1990 balance
	1990	1999 (third quarter)	
FIE/FFP FIE	91	99	1.1
ACP/MiBanco	9	13	1.4
AMPES/Financiera Calpía	27	42	1.5
Propesa/Banco del Estado ^a	11	20	1.8
Prodem/FFP Prodem	21	51	2.4
Procredito/FFP Caja Los Andes	38	104	2.7
Prodem/Bancosol	21	92	4.4
Ademi/BancoAdemi	17	121	7.1
Corposol/Finamérica	5	68	13.6

a. Propesa serves as a proxy for the NGO community in Chile in 1990, Banco del Estado as a representative of the banks in 1999. The two institutions are not formally related.

Source: Data from Accion International and Internationale Projekt Consult.

In contrast, both Finamérica and BancoAdemi have moved substantially up-market. For Finamérica, this movement was a necessary survival strategy in response to the bankruptcy of Corposol/Finansol, from which it was reborn. For BancoAdemi, the evolution reflects a long-standing commitment to the upper end of microenterprises, especially businesses in the productive sector. Therefore it would seem that transformation does not necessarily drive microfinance institutions up-market.

VIII. CONCLUSION

A commercial approach to microfinance appears to dominate in much of Latin America, as reflected in the high levels of profitability, increasing levels of competition, and

predominance of regulated institutions relative to other regions. Spurring the commercialization of microfinance has been the entry of new players in the field -- from both within the ranks of traditional NGOs as well as from new entrants such as formal banking and non-bank institutions. The result has been an increasingly competitive environment, leading to deepening market penetration and also, in some instances, market saturation.

At first blush, the significantly larger loan balances of regulated – and therefore commercial – microfinance institutions seem to suggest that the push towards commercialization has driven microfinance institutions off their initial mission of serving poorer clients. However, there seems to be no compelling argument that this represents mission drift. Rather, larger loan sizes could simply be the function of different factors, such as choice of strategy, period of entry into the market, or natural evolution of the target group.

¹ The conference, *Instituciones reguladas proporcionando servicios de microfinanzas* (Regulated Institutions Providing Microfinance Services), was sponsored by the U.S. Agency for International Development.

² It was not possible to gather data on each institution for one specific point in time, so the data reported in the appendix for the microfinance institutions in the study fall somewhere in the period June 30–December 31, 1999. There are probably another 100,000 clients of another 200 very small NGOs that were not included in this study because it is difficult to obtain data on them. This initial discussion does not include credit union totals for microenterprise loans. (A later section is devoted to credit unions).

³ Glenn D. Westley and Sherrill Shaffer, “Credit Union Policies and Performance in Latin America,” *Journal of Banking and Finance* 23 (1999): 1303-29.

⁴ Beatriz Marulanda, “Here Come the Commercial Banks,” in Glenn D. Westley and Brian Branch, eds., *Safe Money: Building Effective Credit Unions in Latin America* (Baltimore, Md.: Johns Hopkins University Press for Inter-American Development Bank and World Council of Credit Unions, 2000).

⁵ For the purpose of comparing the results of one MFI with another, the *MicroBanking Bulletin* established four peer groups on the basis of four indicators: region, scale, target market, and retail financial intermediary. For the purpose of this paper, only two are relevant: scale (classified as small, medium size, or large according to portfolio), and target market (classified according to clients served – low end, broad based, and high end). The target market is measured by the ratio of their average outstanding loan per client to GNP per capita. See appendix 2 for description of criteria.

⁶ *MicroBanking Bulletin*, no. 4 (February 2000) [www.calmeadow.com].

⁷ Although many clients of village banking programs may not be classic microenterprises, they are nevertheless potential microenterprises and are essentially credit-only clients.

⁸ See, for example, Sebsted and Cohen, “Microfinance, Risk Management, and Poverty.” (soon to be published).

⁹ Marulanda, “Here Come the Commercial Banks.”

¹⁰ Maria Otero, “A Handful of Rice: Savings Mobilization by Microenterprise Programs and Perspectives for the Future” (Accion International, Cambridge, Mass., 1989).

¹¹ It was not possible to generate a more appropriate measure, such as median loan size, because microfinance institutions generally do not track the composition of their portfolio by loan size categories.

Appendix 1

Inventory of microfinance institutions in Latin America, 1999					
Country and institution		Active clients	Active loan portfolio (U.S. dollars)	Average outstanding loan (weighted) ^a	Average outstanding loan as a percentage of GNP per capita
Argentina					
Unregulated					
Women's World Banking Argentina		1,300	700,000	538	6
Emprender (Acción)		3,640	3,872,869	1,064	12
Total		4,940	4,572,869	926	10
Bolivia					
Regulated					
<i>Transformed and specially licensed</i>					
Caja Los Andes		33,685	30,031,000	892	96
Agrocapital		3,200	2,000,000	625	67
FIE		23,522	16,022,000	681	73
Cooperativa Jesús Nazareno		12,000	21,000,000	1,750	188
Prodem		42,206	19,700,000	467	50
<i>Subtotal</i>		114,613	88,753,000	774	83
<i>Transformed</i>					
Bancosol		76,679	66,019,000	861	92
<i>Commercial</i>					
Credi-Agil Banco Union		4,500	4,500,000	1,000	107
Banco Económico (Presto)		2,800	5,300,000	1,893	203
Acceso		25,000	25,000,000	1,000	107
Fassil S.A.		30,000	20,000,000	667	71
<i>Subtotal</i>		62,300	54,800,000	880	94
Total		253,592	209,572,000	826	89
Unregulated					
Promujer		15,600	4,680,000	300	32
Sartawi		5,000	1,500,000	300	32
Creceer		14,580	2,419,393	166	18
CRS		7,222	567,000	79	8
CREA (CARE)		750	151,104	201	22
Fondeco		8,249	3,173,805	385	41
Fubodem (Women's World Banking)		4,358	1,735,284	398	43
ANED		41,803	8,451,941	202	22
Fades		27,963	9,778,333	350	37

Total		125,525	32,456,860	259	28
Total		379,117	242,028,860	638	68
Brazil					
Regulated					
<i>Commercial</i>					
Banco do Nordeste		35,215	8,907,104	253	6
Banco do Povo (SP)		1,520	3,058,000	2,012	45
Total		36,735	11,965,104	326	7
Unregulated					
PortoSol		1,750	1,856,000	1,061	24
Fenape Network (16 institutions)		24,000	8,500,000	354	8
Total		25,750	10,356,000	402	9
Total		62,485	22,321,104	357	8
Chile					
Regulated					
<i>Commercial</i>					
Banco Santander (Banefe)		33,000	30,000,000	909	19
Banco de Desarrollo		15,000	16,000,000	1,067	22
Banco Sudamericano		8,000	8,000,000	1,000	21
Banco del Estado (Banestado Microempresas)		15,000	15,000,000	1,000	21
Total		71,000	69,000,000	972	20
Unregulated					
Propesa		3,823	3,821,412	1,000	21
Cooperativa Liberación		4,860	3,700,000	761	16
Finam		1,454	800,000	550	11
Fundación Contigo		1,688	1,091,603	647	13
Total		11,825	9,413,015	796	17
Total		82,825	78,413,015	947	20
Colombia					
Regulated					
<i>Transformed and specially licensed</i>					
Cooperativa Emprender (25 institutions)		67,058	45,092,884	672	28
<i>Transformed</i>					
Finamérica		10,250	16,774,000	1,636	68
<i>Commercial</i>					
Caja Social		55,000	26,000,000	473	20
Total		132,308	87,866,884	664	27
Unregulated					

Fundación Familiar-CALI		22,552	9,415,868	418	17
Funcop-Popayan		12,814	4,362,434	340	14
Bogata		6,816	3,316,808	487	20
Agape		4,887	359,547	74	3
Ademcol		2,363	140,240	59	2
Fund Mario Santo Domingo		31,500	10,000,000	317	13
Actuar Tolima		6,000	2,000,000	333	14
Total		86,932	29,594,897	340	14
Total		219,240	117,461,781	536	22
Costa Rica					
Regulated					
<i>Commercial</i>					
Banco Comercio		4,000	4,000,000	1,000	37
ADRI		696	2,136,654	3,070	113
Total		4,696	6,136,654	1,307	48
Unregulated					
Finca		7,500	1,360,000	181	7
Adapte		598	245,865	411	15
Total		8,098	1,605,865	198	7
Total		12,794	7,742,519	605	22
Dominican Republic					
Regulated					
<i>Transformed</i>					
Banco Pequeña Empresa		2,982	2,584,737	867	51
BancoAdemi		13,918	40,958,154	2,943	174
Total		16,900	43,542,891	2,577	152
Unregulated					
Fondomicro NGOs (7 institutions)		31,200	19,500,000	625	37
Aspire		1,337	597,417	447	26
Total		32,537	20,097,417	618	36
Total		49,437	63,640,308	1,287	76
Ecuador					
Regulated					
<i>Commercial</i>					
Banco del Pacífico		8,000	3,000,000	375	24
Banco Solidario		10,000	1,750,000	175	11
Total		18,000	4,750,000	264	17
Unregulated					
Fundación Ecuatoriana de Desarrollo (FED)		11,000	2,200,000	200	13

CorpoMicro (7 institutions)		6,542	650,000	99	6
CRS		9,184	191,000	21	1
Impacto (CARE)		13,000	2,515,770	194	13
Insotec		4,237	5,084,400	1,200	78
Finca Ecuador		3,756	849,070	226	15
Total		47,719	11,490,240	241	16
Total		65,719	16,240,240	247	16
El Salvador					
Regulated					
<i>Transformed</i>					
Financiera Calpía		34,380	26,516,758	771	45
<i>Commercial</i>					
Banco Agrícola Comercial		6,000	14,000,000	2,333	137
Banco Promérica		1,000	4,000,000	4,000	234
<i>Subtotal</i>		<i>7,000</i>	<i>18,000,000</i>	<i>2,571</i>	<i>151</i>
Total		41,380	44,516,758	1,076	63
Unregulated					
REDES		2,800	1,260,000	450	26
Sec Nac Fam / Div. Microempresa		10,674	1,067,400	100	6
ADEL-Morazán		1,616	805,851	499	29
Fundación José Napoleón Duarte		1,469	782,000	532	31
FUSAI		2,585	2,943,653	1,139	67
Enlace (CRS)		7,974	1,062,000	133	8
ASEI		2,810	463,237	165	10
SUMA (CARE)		5,000	360,000	72	4
Centro de Apoyo a la Microempresa (CAM)		17,500	1,500,000	86	5
Total		52,428	10,244,141	195	11
Total		93,808	54,760,899	584	34
Guatemala					
Regulated					
<i>Commercial</i>					
Banrural		21,000	30,000,000	1,429	94
Unregulated					
Fundap		5,500	2,750,000	500	33
Cadisogua		2,159	248,285	115	8
Fafidess		3,871	886,000	229	15
Fundea		3,000	1,050,000	350	23
Fundap		5,500	4,800,000	873	58
Fundemix		3,500	4,900,000	1,400	93
FAPE		1,657	223,656	135	9
Genesis Empresarial		25,000	11,500,000	460	30
Total		50,187	26,357,941	525	35

Total		71,187	56,357,941	792	52
Honduras					\$691
Regulated					
<i>Transformed</i>					
Financiera Solidaria (Funadeh)		10,500	4,200,000	400	58
<i>Commercial</i>					
Banco de Occidente		25,000	10,000,000	400	58
Total		35,500	14,200,000	400	58
Unregulated					
ODEF		9,124	3,162,264	347	50
COVELO		6,870	3,447,392	502	73
IDH		2,279	281,698	124	18
Hermindad de Honduras		1,533	1,339,899	874	126
Proyecto Hope		2,355	558,269	237	34
INHDEI		907	1,218,424	1,343	194
Finsol		10,050	6,533,962	650	94
Fama		4,253	497,780	117	17
World Relief, Honduras		17,819	2,258,158	127	18
Finca		16,364	3,379,578	207	30
Total		71,554	22,677,424	317	46
Total		107,054	36,877,424	344	50
Mexico					
Regulated					
<i>Commercial</i>					
FinComún Servicios Financieros Comunitarios		10,000	1,100,000	110	3
Unregulated					
Microcrédito Santa fé Guanajuato		1,544	120,432	78	2
CAME		7,000	500,000	71	2
ADMIC Nacional		2,870	545,000	190	6
Finca Mexico		3,650	351,807	96	3
Los Emprendedores		2,185	289,913	133	4
Compartamos		40,000	4,400,000	110	3
Total		57,249	6,207,152	108	3
Total		67,249	7,307,152	109	3
Nicaragua					
Unregulated					
Acodep		8,000	2,000,000	250	61
ANDES		2,000	454,000	227	56
Fudemi		658	106,547	162	40
Fudesi		749	386,502	516	126

Prodagros		1,619	254,700	157	39
Asoderev		1,000	100,000	100	25
Fundación León		2,000	400,000	200	49
Fundación José Niebrowski		1,500	1,000,000	667	163
Fundenuse		1,000	460,000	460	113
Asodenic		2,500	900,000	360	88
Prodesa		1,650	1,400,000	848	208
Promujer		1,500	145,000	97	24
Adopem		15,752	5,943,998	377	92
Chispa		6,600	2,000,000	303	74
Fama		12,000	4,000,000	333	82
Caritas Diocesana de Matagalpa		2,522	388,388	154	38
Asodenic		10,568	1,711,802	162	40
Finca Nicaragua		12,667	4,757,730	376	92
Total		84,285	26,408,667	313	77
Paraguay					
Regulated					
<i>Commercial</i>					
Financiera Familiar		7,194	3,960,000	550	30
Interfisa Financiera		4,869	3,000,000	616	34
Financiera Visión de Finanzas		8,540	8,680,000	1,016	56
Fincresta		1,600	1,200,000	750	42
EFISA Financiera		3,300	3,000,000	909	50
Total		25,503	19,840,000	778	43
Unregulated					
Fupacodes		4,700	2,300,000	489	27
Total		30,203	22,140,000	733	41
Peru					
Regulated					
<i>Transformed and specially licensed</i>					
CMACS		88,515	76,654,386	866	34
EDPYME Cofianza S.A. ^b		984	596,417	606	24
EDPYME Proempresa		2,451	2,830,015	1,155	45
EDPYME Crear Arequipa		1,671	1,449,876	868	34
EDPYME Credinpet		1,795	2,133,533	1,189	46
EDPYME Crear Tacna		1,463	2,010,096	1,374	53
EDPYME Nueva Visión		445	629,618	1,415	55
EDPYME Edyficar		5,223	5,621,346	1,076	42
<i>Subtotal</i>		102,547	91,925,287	896	35
<i>Transformed</i>					
MiBanco		37,622	13,149,123	350	14
Total		140,169	105,074,410	750	29

Unregulated					
Finca Perú		5,662	727,565	128	5
Habitat Cusco		803	698,515	870	34
IFOCC		2,119	730,966	345	13
Edaprospro		2,713	182,903	67	3
Habitat Trujillo		2,242	1,781,933	795	31
GCOD		1,169	404,971	346	13
Manuela Ramos		475	213,241	449	17
Ces Solaridad		2,177	909,587	418	16
Asodeco		1,946	353,415	182	7
Rasuhillca		3,071	534,742	174	7
Cámara de la Libertad		1,426	832,130	584	23
Fovida		505	236,746	469	18
Prisma MicroCredit program		13,431	1,384,301	103	4
Fondesurco		1,646	1,343,935	816	32
Promuc		4,222	637,522	151	6
Acude (OI)		254	292,008	1,150	45
Fondecap, Cusco		1,401	695,235	496	19
Total		45,262	11,959,715	264	10
Total		185,431	117,034,125	631	24
Uruguay					
Unregulated					
FUAAM		1,600	1,300,000	813	13
Venezuela					
Regulated					
<i>Commercial</i>					
Bangente		1,000	1,000,000	1,000	30
Unregulated					
Fundación Mendoza		1,364	1,920,000	1,408	42
Total		2,364	2,920,000	1,235	37
Latin America					
Regulated	77	807,783	648,564,701	803	49.0
Transformed and specially licensed	21	284,218	225,771,171	794	49.0
Transformed	31	186,331	170,201,772	913	71.0
Commercial	25	337,234	252,591,758	749	49.0
Unregulated	128	711,955	228,962,203	322	24.0
Total	205	1,519,738	877,526,904	577	34.0

- a. The average outstanding loan size was calculated for each institution by dividing its outstanding loan portfolio by the number of its active clients. To calculate averages by country or classification, the total combined portfolio for all institutions was divided by the total number of clients for all institutions.
- b. EDPYME is *entidades de desarrollo de las pequeñas y micro empresas*, or small and microenterprise development agency.
- c. Numbers in this column indicate total number of institutions included by category.

APPENDIX 2

Diversity is one of the great strengths of the microfinance industry. But it makes it difficult for managers and industry observers to compare the results of one microfinance institution with those of another. To address this problem, the *MicroBanking Bulletin* established peer groups—sets of programs with characteristics similar enough so that their managers can usefully compare their results with those of other organizations in the same peer group. The peer groups are formed on the basis of four indicators—region, scale, target market, and retail financial intermediary. Two of these are relevant here (see table):

Scale: The *MicroBanking Bulletin* classifies microfinance institutions as small, medium-size, or large according to the size of their portfolio, so that institutions can be compared with others at a similar stage of growth and outreach.

Target market: The *Bulletin* classifies institutions into three categories according to the range of clients they serve—low end, broad based, and high end. The target market is measured by the ratio of their average outstanding loan per client to GNP per capita.

Criteria for peer group categories of scale and target market

Scale	<i>Small</i>	<i>Medium-size</i>	<i>Large</i>
Loan portfolio (U.S. dollars)	<1,000,000	1,000,000–7,999,999	8,000,000 or more

Target market	<i>Low end</i>	<i>Broad based</i>	<i>High end</i>
Average loan balance as a percentage of GNP per capita	<20 (or average balance <\$150)	20–149	150 or more

Source: *MicroBanking Bulletin*, no. 4 (February 2000) [www.calmeadow.com].